

Addendum to Underwriting Narrative

Operating Lease
Addendum to Underwriting
Narrative – Operating
Lease
Section 232
(223(a)7, 223(d), 223(i))

U.S. Department of Housing
and Urban Development
Office of Healthcare Programs

OMB Approval No. 9999-9999
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Public reporting burden for this collection of information is estimated to average 0.5 hours. This includes the time for collecting, reviewing, and reporting the data. The information is being collected to obtain the supportive documentation which must be submitted to HUD for approval, and is necessary to ensure that viable projects are developed and maintained. The Department will use this information to determine if properties meet HUD requirements with respect to development, operation and/or asset management, as well as ensuring the continued marketability of the properties. Response to this request for information is required in order to receive the benefits to be derived. This agency may not collect this information, and you are not required to complete this form unless it displays a currently valid OMB control number. No confidentiality is assured.

Warning: HUD will prosecute false claims and statements. Conviction may result in criminal and/or civil penalties. (18 U.S.C. 1001, 1010, 1012; 31 U.S.C. 3729, 3802)

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Date of Agreement: _____
Current Lease Term Expires: _____
Description of Renewals: _____
Current Lease Payment: _____
Major Movable Equipment
- Current Ownership: <<Mortgagor / Operator>> _____
- Post Closing Ownership: <<Mortgagor / Operator>> _____

Key Questions

	<u>Yes</u>	<u>No</u>
1. Does the lease contain any non-disturbance provisions?	_____	_____
2. Does the lease require the Mortgagor to escrow any funds other than those associated with this loan?	_____	_____

If you answer “yes” to any of the above questions, please briefly address below.

<<For each “YES” answer above, provide a narrative discussion regarding the topic.>>

Lease Payment Analysis

The lease payments need to be sufficient to (1) enable the lessor to meet debt service and impound requirements; and, (2) enable the lessee to properly maintain the project and cover

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operating expenses. The current leases indicate an aggregate rent payment of \$XX per month (\$XX annually) above the payments required by the FHA-insured loan.

The underwriter has prepared an analysis demonstrating the minimum acceptable lease payment.

a.	Annual Principal and Interest	\$	-
b.	Annual Mortgage Insurance Premium		-
c.	Annual Replacement Reserves		-
d.	Annual Property & Liability Insurance		-
e.	Annual Real Estate Taxes		-
f.	Total Debt Service and Impounds	\$	-
g.	% of Net Income Available for Debt Service		85.0%
h.	Programs Debt Service Coverage		1.176
i.	Minimum Annual Lease Payment	\$	-
j.	Annual Return on Lease	\$	-
k.	Net Operating Income (NOI)	\$	-
l.	Adjusted NOI (k+c+d+e)	\$	-
m.	Operator's Coverage		#DIV/0!

The lease payment as currently proposed in the lease would amount to \$XX (\$XX per year + \$436,798 for debt service and impounds). The lease payment should be increased to \$77,082 per year (\$6,423.50 per month) plus the total debt service and impound amounts required by the FHA-insured loan. The underwriter has included a special condition to the firm commitment requiring the lease payment be revised to meet or exceed this minimum. The recommended annual lease payment also provides the operator with an acceptable profit margin.

Responsibilities

<<Provide a description of the responsibilities of the Lessor and Lessee under the terms of the lease with regard to the following: payment of real estate taxes; maintenance of building; capital improvements; replacement of equipment; property insurance; etc.>>

HUD Lease Provisions

Prior to closing, the lease needs to be modified to include the appropriate HUD requirements outlined in the HUD Operating Lease Addendum, including, but not limited to:

1. Contain a restriction against ~~its~~ assignment or subletting without HUD prior approval;
2. Requires prior written approval by HUD for any modification in bed authority;
3. Requires the lessee to submit financial statements to HUD within ~~6090~~ days of the close of the facility's fiscal year;

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4. Designates the lessee as having the responsibility to seek and maintain all necessary licenses and provider agreements including Medicaid and Medicare.
5. Requires the lessee to submit a copy of the licenses and provider ~~agreement~~agreements to HUD.
6. Requires the ~~mortgagor/lessor~~lessee ensure that the facility meets State licensure requirements and standards.

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